

BRIEFING PAPER

Strategy for IEA Ministerial (MAR 1975)

Setting

This will be the first meeting of consumer nations at ministerial level since the Washington Energy Conference in February 1974.

Progress in the IEA

We have agreement in the IEA on the key elements of a coordinated consumer response to the threat posed by OPEC control of oil supply and price -- the integrated emergency program and the OECD "safety net."

We also have begun work on a comprehensive framework of policies to compress OPEC's market and reduce its power to maintain oil prices at artificially high levels over the long term. The IEA has a joint conservation objective to reduce oil imports by 2 million barrels a day by the end of 1975. It has a system for rigorous review of national conservation programs to measure progress toward this goal and new goals we will set for 1976, 1977, 1980, and 1985.

The second major element in long term cooperation -- a policy framework for accelerated development of new energy sources -- was agreed in March. But implementation of the major elements of this approach -- level of the safeguard price, mechanisms to stimulate production of high cost synthetic fuels and credible joint R&D programs -- remains to be completed. These negotiations will be difficult as the interests of various IEA members vary greatly.

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Market Situation

Conditions in oil markets have temporarily improved under the impact of large reductions in demand due to the recession, the response to high prices and mild winter weather. There has been marginal price shaving and downward adjustments to get prices in line. There have also been substantial declines in production. Most of this reduction was taken by Saudi Arabia, where production is down by more than 3 million barrels a day, to reduce the pressure on smaller producers.

OPEC meets in June, shortly after the ministerial. There is a good possibility it will switch from a dollar to an SDR measure for oil prices, primarily to demonstrate politically its independence from the U.S. The price freeze expires in September and there is substantial political momentum for another hike in prices, although current market conditions are an obstacle.

Producer/Consumer Relations

The Prepcon demonstrated the cohesiveness of the OPEC/LDC bloc and validated OPEC's leadership and strength with other LDCs. OPEC intends to use its oil leverage to support LDC efforts to restructure the world economic system to legitimize its own example and deflect criticism by other LDCs of the impact of high oil prices. However, the IEA withstood this first test of consumer solidarity successfully. French efforts to stay between the IEA and producers by a public posture supportive of the aims of the New International Economic Order failed.

Your statement that we are ready to resume the dialogue and will initiate bilateral consultations with our IEA partners on this was welcomed. Although they stuck with us in Paris, several countries are uncomfortable at seeming to be unwilling to have a dialogue, particularly Japan, Italy and Sweden. They will want assurance that we have not changed our position on the link between energy and raw materials and to discuss procedural tactics for reopening the dialogue with producers. They will also seek evidence of our intention to continue to coordinate this effort in the IEA.

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Objectives

The consumers have come far and fast since the Washington Energy Conference. But, our political momentum is now threatened by two fundamental problems we want to attack at this meeting:

1. Doubt over US ability to deliver on past and future commitments in conservation, floor price, etc. because of Congressional antipathy to Administration energy policy; and
2. Uncertainty over the IEA's future role in relations with the producers in the wake of the Prepcon failure.

The first problem has been intensified by a temporary easing of the oil market and a growing realization that the political and financial strains caused by the oil price increase are manageable in the short run. We must reverse this sapping of IEA political momentum at this meeting by:

- consolidating our accomplishments in negotiating the emergency program and a policy concept for long term measures to reduce dependence, and
- giving new, high-level impetus to the elaboration of operational programs for accelerated development (floor price), research and development and nuclear cooperation.

Most countries bought the floor price with reluctance and in response to our pressure. But the initial political momentum has begun to dissipate. Early enthusiasm is being replaced by the usual nationalism. Although the UK and Norway now support the floor price approach, the others will move on it only if we push them hard.

You should strongly emphasize the need to meet the July 1 deadline for completing the agreement on the floor price and the other elements in the policy framework for alternate sources. This will provide strong evidence of our political will to meet OPEC's challenge. To bring

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the rest of IEA along on this we must create a new sense of commitment and input by the U.S. Our readiness to move forward in areas of interest to them -- uranium enrichment and energy R&D -- will do this.

On the second problem -- producer/consumer relations -- other IEA members will be seeking to learn what role we see for the organization in relations with producers and reassurance that we will coordinate our initiatives to resume the dialogue in the IEA. They will want to explore your ideas on the energy/raw materials connection, seeking reassurance that we do not accept it.

Our strategy in this area must ensure that we come out of this meeting with clear U.S. leadership in relations with producers. We should take a first cut at the procedural options for resuming the dialogue. This will evidence our intent to coordinate in the IEA. Your statements here and in the OECD meeting the next day expand on your Kansas City statement and publicly demonstrate to LDCs that we are aware of their concerns and are willing to address them, but make clear that we do not accept their energy/raw materials linkage and do not intend to let ourselves be leveraged this way.

Strategy

With Consumers

We move into the next phase of consumer cooperation with new assets:

- Proof that the energy problem cannot be resolved simply by talking with the producers.
- Evidence that we have not yet created the objective conditions for lower oil prices and that the producers do not take our energy policies seriously.
- A clear demonstration that consumers must redouble their efforts in conservation and development of new energy to regain leverage in the world oil market.

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The likelihood that Congress will not come up with a meaningful energy program has reduced the credibility of our international energy strategy. Before the meeting, it is probable that the President will have decided on tactics vis-a-vis Congress. It is likely that he will go for the second \$1 on the import fee plus decontrol or some tradeoff between them.

The decision will be announced, but the Congressional recess on the 21st will prevent full exposure of our divisions. This action will clearly indicate the Administration's willingness to lay itself on the line to support its policy, and our firm resolve to deliver on past commitments.

You reinforce this with your statement at the meeting of our unequivocal support for the accelerated development program. We are pushing the pace to complete the March agreement. Your emphasis on the urgency of implementing this agreement will demonstrate our determination to move forward with a program to develop alternatives to OPEC oil and provide clear evidence of our firm commitment to this effort.

We also demonstrate that we are ready to make new inputs in areas of interest to other IEA countries -- their quid pro quo for accepting the floor price. The nuclear field is one in which we can move forward rapidly with other consumers -- through national as well as cooperative programs.

Your statement confirms our assurances that the U.S. intends to remain a reliable supplier of enriched uranium services for foreign customers and emphasizes our willingness to consider foreign participation in U.S. enrichment plants. (To do this will require rapid resolution by the Administration of whether additional enrichment capacity should be developed in the private sector or by the government. This issue is moving now toward a decision by the President).

The ability of the IEA countries to meet their ambitious targets for nuclear power is an important gauge of their determination to affect the present imbalance in energy markets. We want to focus IEA attention on this lagging effort. Your proposal that the Agency undertake a policy level examination of obstacles to rapid progress in this area will seize IEA with this problem. This effort should lead to development of a program that

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addresses the key areas where cooperative action can reinforce national programs.

The energy R&D area is a second element of our broader effort on development of alternative sources. Your statement makes clear our readiness to make the IEA the principle focus of energy R&D cooperation. National preference for more flexible bilateral arrangements has slowed progress in this area. While we have agreed on guidelines for R&D cooperation and initiated several joint projects their impact is small. Your statement evidences our willingness to join in concrete projects of significant size to reinforce our political determination to mobilize our technological resources as an important measure of consumer solidarity. ERDA is prepared to give high priority to energy R&D cooperation.

Producer/Consumer Relations

You have already taken the lead in this area with your Kansas City speech. Doubts which had grown about our position on further dialogue have been removed. You have also stated that we accept raw materials as a major North/South issue and that we will address it. Other IEA members may be critical of our failure to consult on your initiative and will want to pursue your offer to discuss our ideas and explore tactical options.

To reassure them, you should reaffirm that our position on "revalorisation" and indexation have not changed, that we remain opposed to them in our approach to commodity problems. This will give us a firm basis for dealing with the Europeans who are afraid that we were changing direction and who will be seeking a strong stand from us on these issues.

You should focus discussion here on two issues, the need for a conceptual framework for dealing with the energy/raw materials link and the necessity for coordinating this process in the IEA.

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On the first issue, you could indicate that the meeting can only take the first cut at this problem and that final agreement is not needed now. You have earlier sketched out possible alternative scenarios which might lead to a resumption of the dialogue -- seizing existing institutions with specific problems or reconvening the Prepcon to present these issues to a larger P/C conference. In your intervention in the IEA, you also mention the possibility of a second Prepcon agreeing on the creation of separate ministerial commissions of invited membership for energy, raw materials, and problems of the poorest countries.

While we continue to favor using existing international fora to deal with non-energy issues, there is strong OPEC/LDC support for the commission type approach, which is similar to a recent proposal by the Shah.

Even if the commissions decided to spin discussions on particular commodities or financial arrangements off into other forums, the OPEC/LDC bloc would doubtless insist that the results of those negotiations come back to the P/C group for ratification. This is the "best case" outcome of such a procedure. The worst would be that the more radical OPEC/LDC countries would insist on first negotiating a set of "governing principles" which would "guide" the discussions in other forums. They would certainly insist on acceptance of indexation and other New International Economic Order points among such principles. Since we could not accept such proposals, we would be back to square one on the whole dialogue exercise (including energy), with a further escalation of tension.

We wish to avoid having new commissions usurp the proper role of existing institutions. Their mandate should be clearly limited to exploring new approaches to commodity problems which would be referred to appropriate forums for action. We have important objectives in exploring a new global system for raw materials. Therefore, we must avoid accepting procedural arrangements which would give Algeria and other radicals an effective

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veto or undue influence on how discussions of specific issues are pursued to a conclusion.

Thus, we should seek to develop an IEA consensus that includes: (a) procedural arrangements for handling the raw materials issue which ensure against making the P/C conference itself the final arbiter of what may be negotiated in other forums; and (b) rejection of a procedure under which the conference would be the focus for negotiation of "guiding principles", the substance of particular commodity arrangements and other issues.

We want to maintain control of the process for resuming the dialogue and ensure the EC and Japanese do not slide away. You should propose, therefore, that we use the IEA for coordination on the P/C dialogue as we did prior to the Prepcon. We do not, however, intend that this process of coordination will limit any of our own bilateral initiatives with producers. To underscore our continuing commitment to work in the IEA on this effort, you should suggest that follow-on discussions focus on agreeing to a common approach on the procedural questions and on conditions for consumer participation in a new Prepcon (e.g. IEA participation).

Department of State
May 1975

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